

December 22, 2006

Maine Milk Commission Special Meeting Minutes
Deering Building, Room 233
Augusta, Maine 04333

Notices for the December 22, 2006 meeting were distributed to Commission members, intervenors and other interested parties November 17, 2006 and sent to the Secretary of State's Office for posting on November 17, 2006.

Commission Present: Chair, Michael Wiers, John Joseph Jr., Katherine O. Musgrave, Colon Durrell.

Commission Absent: Shelley Doak, *ex-officio*

Department Officials: None

Staff Present: Stan Millay, Executive Director and Carol Gauthier, administrative assistant.

Legal Counsel: Lucinda White, Assistant Attorney General.

Intervenors Present: John Blake, H.P. Hood, Inc., John Economy, Garelick Farms of Maine and Thomas Brigham, Oakhurst Dairy.

Others Present: Dale Cole, dairy farmer and President, MDIA, Fred Hardy, MDIA and Julie-Marie Bickford, Executive Director, Maine Dairy Industry Association (MDIA). Also present were, Leon Graves and Steve Pyne from Dairy Marketing Services and Bob Wellington from Agri-Mark Cooperative, also dairy farmers Galen Larrabee, Chuck Farrand, Walter Fletcher and Charlotte Bosworth. Attending from Feed Commodities were David Wadsworth and Ellis Additon.

Meeting called to order at 1:35 p.m. by chair, Michael Wiers.

Agenda Item 1: Minutes: John Joseph made a motion to accept the minutes of the meeting on November 17, 2006. Katherine Musgrave seconded. Motion passed 3-0.

Agenda Item 2: Lucinda White, Assistant Attorney General: No report.

Agenda Item 3: Minimum Prices: There is a prevailing premium of \$1.50/cwt on Class I for January 2007 reported by Dairy Marketing Services (DMS) and Agri-Mark Cooperative. In addition to this premium, both Agri-Mark and DMS reported that an additional \$0.35/cwt for milk that comes from producers who do not treat their cows with the rBST hormone will be in affect on January milk. Federal Order One Class I price for January is \$16.84.

There is a Farm Bill Counter Cyclical Payment (MILC) for January 2007 of \$0.034. Congress has reauthorized the MILC program at a reduced rate: (34% of \$16.94 minus the Class I Price).

Julie-Marie Bickford asked that the Commission allow David Wadsworth to give a short presentation on feed cost increases over the past few months. The Commission agreed.

Mr. Wadsworth gave the Commission written testimony that shows increases in many feed commodity categories. These increases range from 2.5% to as much as 83%. Weather, demand for corn to produce ethanol and poor quality haylage for 2006 are among the factors contributing to the increases. Mr. Wadsworth summed up by asking that the Commission, Department of Agriculture and legislature do more to find a way for the producers to get more money for their milk.

Julie-Marie Bickford told the Commission that since grain prices have gone up significantly and other costs have increased, they should consider an increase in the producer cost of production adjustment.

She went on to say that MDIA was opposed to including rBST premiums in the minimum price schedule. She said these kinds of premiums are similar to quality premiums and organic premiums and are market driven. She reminded the Commission that once they adopt a rBST premium into the schedule, it will be diluted and the producer will get less money and it will also be deducted from the stabilization program payment.

Lucinda White asked if MDIA considered the rBST premium a prevailing premium.

Julie-Marie Bickford replied saying rBST free premiums are similar to quality premiums or volume premiums or organic premiums and should not be considered an over-order premium.

Chairman Wiers asked Ms. Bickford if it was MDIA's position that rBST free premiums should be called a cost instead of a prevailing premium.

Ms. Bickford responded by stating that if the Commission believed it was necessary to include the rBST premiums in the minimum prices schedule then they should add it to the producer cost of production adjustment instead of to the over-order premium line.

Chairman Wiers asked how the cost of producing milk without the use of rBST outside of Maine was different than the cost of producing milk without the use of rBST within Maine.

Ms. Bickford answered saying that using rBST returned between \$0.60/cwt. and \$1.00/cwt. and that is how much a producer is losing by not using it. Therefore it is a cost of production and should be put in the cost of production category in the minimum price schedule. Placing it in the prevailing premium line means any benefit that the producer receives from it gets subtracted from the dairy support program.

Fred Hardy pointed out that Oakhurst Dairy had paid a rBST premium for years and the Commission had not used it in the minimum price schedule during that time.

Tom Brigham told the Commission that the market has changed dramatically during the past few months. He said that rBST free milk is now a requirement of Maine farmers and not an option. He explained that there are a few facilities still receiving milk from cows treated with rBST, none of which are located in Maine. He went on to say he supported adopting the increased premium into the price schedule and was not opposed to it being added to the cost of production adjustment if that is where the Commission decided to place it.

Chairman Wiers asked how the Commission would justify placing a prevailing over-order premium into a cost of production category.

Tom Brigham responded saying most Maine farms have been rBST free for a long time, not just the past few months.

Chairman Wiers informed the Commission that he believed that the cost of production adjustment needed to be looked at separately and that it should not be changed arbitrarily by adding a rBST premium to it in order to shift costs to the dairy support program.

Colon Durrell asked how the cost production for rBST milk in Maine was different than for rBST milk from outside of Maine.

Tom Brigham answered saying that producers outside of Maine had access to markets for milk like cheese plants that are not available to Maine producers.

Lucinda White said that Maine's cost of production numbers were unique to Maine. She said that rBST costs alone should not be different state to state. She reminded the Commission that the statutory language does not require that the Commission automatically or formulaically recognize every "prevailing premium" in New England. Instead, the Commission must carefully weigh the statutory general factors, and use these to determine a minimum producer price that will preserve competition in the industry.

Bob Wellington explained to the Commission that Maine has gradually adjusted to the non-use of rBST over the past few years while the rest of New England has been plunged into it during the past few months. He said that there is \$0.35/cwt. prevailing on January milk in neighboring states, as well as in Maine, in addition to the \$1.50/cwt. that was prevailing in December. He gave an example of a rBST premium adopted recently in New Jersey that amounted to \$0.76/cwt. He said there is a cost to producers for not using rBST. He said that is why he and others are supporting rBST free premiums. He went on to say that he supported including prevailing premiums in the price schedule somewhere. He said that the amount is \$1.50/cwt. currently prevailing plus an additional \$0.35/cwt. beginning with January milk. He told the Commission that this amount is prevailing in Maine and in neighboring states.

Leon Graves agreed with Bob Wellington's comments. He told the Commission that he was sympathetic to the producers' requests but said that he supported adding the prevailing amount of \$1.85/cwt to the minimum price schedule. He said he was concerned about adding some of it to the cost of production adjustment.

Fred Hardy told the Commission that the prevailing premiums were driven by prevailing costs of production. He said rBST premiums are like volume or quality premiums and should not be treated like regular prevailing premiums. He pointed to the high retail price of milk in the supermarket and said the producer is not getting any of that excessive mark-up.

Chairman Wiers observed that the \$1.85/cwt. prevailing is charged to all customers, making it different from volume or quality payments.

John Economy said that the rBST payment that Oakhurst makes to its producers is not part of the prevailing premium of \$1.85/cwt. He said that he does not support adding prevailing premiums arbitrarily to the cost of production adjustment. He said he thinks it should be added to the prevailing premium line where it belongs.

Dale Cole reminded the Commission that producers were in a tough spot. Costs were increasing. He asked the Commission to consider the consumer in regards to how retail has increased their prices well above the minimum retail margin.

Fred Hardy reminded the Commission that there is much unfairness in milk pricing for the producer. He said that producers need the processors and retailers. He pointed out that consumers depend on all three and are paying much more for milk than they should, based on what producers are paid.

John Joseph asked about the true costs of production and how the feed cost increases were effecting it over-all.

Stan Millay provided the latest update from Dr. Dalton, who conducted the most recent cost of production study for the Commission. He told the Commission that the information included feed costs and was current through October and November. It did not include the increases that Mr. Wadsworth reported for December. He reported that this update still had each of the three short-run breakeven tier levels a few cents below those adopted by the Commission in September and which are used in the dairy support program.

Bob Wellington reminded the Commission that the cost of production is greater in Maine because of transportation costs. He pointed out that feed costs are regional. He also informed the Commission that he expected February milk prices to decline from January's level.

Colon Durrell made a motion to accept schedule #01-07 with a producer cost of production adjustment of \$1.35/cwt. It includes a \$16.84/cwt. Class I Price as announced by Federal Northeast Milk Market Administrator, plus \$1.10/cwt. as prevailing in neighboring states, plus an additional \$0.75/cwt. prevailing in neighboring states, plus \$0.93/cwt. for a handling fee and plus a \$0.20/cwt. processor assessment, for a total dealer Class I cost of \$21.17/cwt. John Joseph seconded the motion.

Julie-Marie Bickford asked the Commission to consider increasing the cost of production adjustment. She cited the higher costs of feed and suggested that by February feed costs could increase production costs by more than \$1.00/cwt.

Chairman Wiers reminded the Commission that Dr. Dalton's cost of production tier updates dated December 7 are still below the levels adopted by the Commission in September. He asked where the point was that the Commission could not exceed in raising the cost of production adjustment.

Lucinda White stated that it was her opinion from reading the cost of production rule that the Commission could not exceed \$1.64/cwt. without revising the rule.

Bob Wellington supported the motion but suggested adding \$0.29/cwt. to the \$1.35/cwt. cost of production adjustment. (Bringing it up to \$1.64/cwt).

Katherine Musgrave said she supported waiting until next month before considering adding to the cost of production adjustment.

Chairman Wiers said he would like to see more justification before raising the cost of production adjustment.

Julie-Marie Bickford told the Commission that the feeds costs presented by Mr. Wadsworth were factual and provided justification for such an adjustment increase. She expressed concern with waiting until January's meeting to consider changing it.

Chairman Wiers asked the processor intervenors for their position on this issue.

Tom Brigham stated that he was on record supporting \$1.16/cwt. as a cost of production adjustment and was not in favor of a higher amount than that.

John Economy agreed and added that he had school milk contracts that were hurt by the high cost of production adjustment. He said other Maine processors were effected as well.

John Blake agreed.

Katherine Musgrave made a motion to move the question. Colon Durrell seconded. Motion passed 3-0. Vote called on the motion to adopt minimum price schedule. Motion passed 3-0.

Agenda Item 4: Maine Monthly Price Survey: The Commission reviewed the Maine price survey for December 2006 which included prices for Augusta and Bangor and reviewed the October IAMCA milk price survey.

Agenda Item 5: Next Scheduled Meetings:

- January 9, 2007, Tuesday 10:30 a.m.
Agricultural Trade Show Augusta Civic Center, Augusta, ME
- January 19, 2007, Friday 1:30 p.m.
Room 233, Department of Agriculture, Food & Rural Resources, Augusta ME
- February 23, 2007, Friday 1:30 p.m.
Room 233, Department of Agriculture, Food & Rural Resources, Augusta ME
- March 23, 2007, Friday 1:30 p.m.
Room 233, Department of Agriculture, Food & Rural Resources, Augusta ME
- April 20, 2007, Friday 1:30 p.m.
Room 233, Department of Agriculture, Food & Rural Resources, Augusta ME

Agenda Item 6: Other:

1. **Milk Commission Budget:** The Commission reviewed income and expenditures.
2. **Dealer Margins:** Stan Millay reported that the University of Maine had collected necessary data from Maine's processors and a preliminary report would be coming soon.

Agenda Item 7: Executive Session: The Commission did not go into Executive Session.

Adjourned: 3:35 p.m.

Stanley Millay, Executive Director, Maine Milk Commission.